

Message Text

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ACTION SS-25

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C O N F I D E N T I A L OTTAWA 0736

EXDIS

SECSTATE PASS SECDEF, CJCS AND TREASURY

E.O. 11652: GDS

TAGS: MILI, MARR, CA

SUBJ: FINANCING THE LOCKHEED CANADIAN LRPA

1. BEGIN SUMMARY: DURING AMBASSADOR'S INITIAL CALL ON MINISTER OF DEFENCE RICHARDSON, 1100 HOURS, 24 FEBRUARY, RICHARDSON EXPRESSED CONFIDENCE IN LOCKHEED'S CORPORATE LONGEVITY AND EXPRESSED HIS DESIRE TO SEE THE LRPA CONTRACT SIGNED. HE CONSIDERS THE LOCKHEED LRPA THE BEST ANTI-SUBMARINE WEAPON SYSTEM AVAILABLE, AND TAKES PARTICULAR PRIDE IN CANADIAN DESIGN INNOVATIONS IT EMBODIES. HIS MAIN CONCERN IS OVERCOMING THE SHORTFALL IN FRONT-END FINANCING, AND WE REVIEWED THE VARIOUS OPTIONS (EXIM, FMS, CANADIAN GOVERNMENT SECURITY ISSUE), AGREEING THAT PENDING ISSUE OF EXPERTS' DISCUSSIONS TODAY, THE LATTER IS THE MOST PROMISING. DATT HAD PREVIOUSLY BEEN INFORMED THAT REPRESENTATIVES OF THE CANADIAN GOVERNMENT MET WITH ROYAL BANK OFFICIALS ON 20 AND 21 FEBRUARY TO DETERMINE THE FEASIBILITY OF USING GOC SECURITY NOTES IN FAVOR OF THE ROYAL BANK, TO MATURE PERIODICALLY DURING 1980, 81 AND 82. WITHIN THE FRAMEWORK OF THIS PLAN THE SECURITY NOTES WOULD BE ISSUED ANNUALLY FOR ONLY THE AMOUNT ANTICIPATED FOR THE ENSUING YEAR. DETAILS OF THIS SHORTFALL FINANCIAL PLAN WILL BE INCLUDED IN A SEPARATE DATT MESSAGE.

END SUMMARY.

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2. DURING CALL ON MINISTER OF DEFENCE RICHARDSON TODAY HE GENERALLY EXPRESSED CONFIDENCE IN THE LOCKHEED COMPANY'S CORPORATE LONGEVITY. HOWEVER, HE INDICATED SOME SOLID ASSURANCE, GOVERNMENT TO GOVERNMENT MIGHT BE NEEDED TO ASSURE LOCKHEED'S CAPABILITY TO PROVIDE ALL THE ADDITIONAL OFFSETS TO CANADA OUTLINED IN THEIR CONTRACT ON THE LRPA. SPECIFICALLY, HE WAS REFERRING TO THE FOLLOW ON OFFSETS FOR 150 POTENTIAL PA-3 SALES. HE ALSO EXPRESSED SOME CONCERN OVER THE POSSIBLE POLITICAL REPERCUSSIONS LOCKHEED MAY STILL FACE, AS A RESULT OF THE JAPANESE AND THE NETHERLANDS INVESTIGATIONS ON LOCKHEED'S BRIBE WAYS TO CANCEL THE CONTRACT, BUT TO DEVELOP SOME ALTERNATIVE TO COVER THE SHORT FALL IN FINANCING, SPECIFICALLY, THE FIRST THREE YEARS. HE SAID HE WAS PLEASED WITH THE LOCKHEED LRPA, AND CONVINCED THAT IT REPRESENTED THE BEST ANTI-SUBMARINE WEAPON SYSTEM AVAILABLE. THERE IS NO QUESTION IN HIS MIND THAT THE GOC WANTS TO NEGOTIATE THE CONTRACT WITH LOCKHEED. HE ALLOWED THAT IT MIGHT BE POLITICALLY ADVISABLE TO CHOOSE THE TIMING OF CANADA'S DECISION TO SIGN THE CONTRACT WITH SOME CARE, PARTICULARLY IF MORE LOCKHEED REVELATIONS ARE TO BE EXPECTED.

3. THE DATT HAS BEEN INFORMED BY SEPARATE SOURCES THAT THE LOCKHEED REPRESENTATIVE, TOGETHER WITH MEMBERS OF THE LRPA PROJECT TEAM AND REPRESENTATIVES FROM DEPARTMENT OF SUPPLY AND SERVICES, FINANCE, AND NATIONAL DEFENCE, MET WITH OFFICIALS OF THE ROYAL BANK OF CANADA ON 20 AND 21 FEBRUARY TO DETERMINE THE FEASIBILITY OF ISSUING SECURITY NOTES IN FAVOR OF THE ROYAL BANK OF CANADA. THE SECURITY INSTRUMENT WOULD BE A WRITTEN PROMISE TO PAY A SPECIFIED SUM ON A FUTURE DATE, AND THIS INSTRUMENT WOULD BE EXECUTED BY THE DEPUTY MINISTER OF FINANCE. THE MATURITY OF THE SECURITY INSTRUMENT WOULD BE FIXED IN RELATION TO THE CASH AVAILABLE FROM FORECASTED DND APPROPRIATIONS FOR THE YEARS 1980, 1981 AND 1982. THIS ENDEAVOR AT THIS WRITING APPEARS TO BE CONSIDERED THE PRIMARY MEANS FOR THE GOC TO FINANCE THE SHORT FALL. DATT HAS ALSO BEEN INFORMED THAT THE TRIP TO WASHINGTON BY CANADIAN REPRESENTATIVE ON 24 FEBRUARY IS TO EXPLORE ALL THE POSSIBILITIES OF SEVERAL OTHER ALTERNATIVES, IE., FINANCING THRU THE US

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DOD FOREIGN MILITARY SALES PROGRAM. US GOVERNMENT GUARANTEE OF NAVY ORDERS FOR THE LOCKHEED P-3 SYSTEM, OR ANY OTHER ALTERNATIVES THAT MAY BE SUGGESTED DURING THE VISIT. RICHARDSON INDICATED IN HIS VIEWS, THE SHORT FALL FINANCING WAS JUST AN HONEST OVERSIGHT ON THE PART OF BOTH LOCKHEED AND HIS OFFICIALS. NEITHER PARTY REALLY EVER DISCUSSED THE COMPLETE FINANCING DETAILS UNTIL THEY WERE PREPARING TO SIGN THE CONTRACT. ON ONE HAND IT WAS ASSUMED LOCKHEED

WOULD PROVIDE THE SHORT TERM FINANCING AND ON THE OTHER HAND SINCE FINANCING COST AND ARRANGEMENTS HAD NOT BEEN OFFICIALLY REQUESTED, LOCKHEED ASSUMED THE GOVERNMENT HAD ARRANGED TO COVER THE SHORT FALL.

4. COMMENT: EVEN IF RICHARDSON GOES FOR THE SECURITY ISSUE, HE WOULD STILL HAVE TO CONVINCE THE CABINET THAT IT DOES NOT RPT NOT REPRESENT "ENLARGING THE FRAMEWORK" OF A BUDGET THAT ALREADY SHOWS A SIXTEEN PERCENT INCREASE FROM LAST YEAR. WE DO NOT YET KNOW REACTIONS FROM FINANCE MINISTER MACDONALD AND SUPPLY AND SERVICES MINISTER GOYER.
ENDERS

NOTE BY OC/T: NOT PASSED ABOVE ADDRESSEES.

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